

## Message Text

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ACTION EUR-12

INFO OCT-01 NEA-10 ISO-00 SOE-02 AID-05 CEA-01 CIAE-00  
COME-00 DODE-00 EB-08 DOE-15 H-01 INR-10 INT-05  
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O R 051325Z APR 78  
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TO SECSTATE WASHDC IMMEDIATE 1367  
INFO AMCONSUL ADANA  
AMAMEBASSY ATHENS 7690  
AMEMBASSY BRUSSELS  
AMEMBASSY BONN  
USINT BAGHDAD  
AMCONSUL ISTANBUL  
AMCONSUL IZMIR  
AMEMBASSY NICOSIA  
AMEMBASSY PARIS

C O N F I D E N T I A L ANKARA 2576

USOECE

USEEC

E.O. 11652: GDS  
TAGS: ENRG, EFIN, PFOR, TU  
SUBJ: CITIBANK OFFERS TO RESCHEDULE TURKEY'S PETROLEUM DEBT TO  
IRAQ

REF: ANKARA 2536

1. CITIBANK REPRESENTATIVES WILL MEET APRIL 9 IN  
BAGHDAD WITH IRAQI GOVERNMENT TO PROPOSE THAT  
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GOI GUARANTEE \$400 MILLION CITIBANK LOAN TO TURKISH  
CENTRAL BANK, TO BE USED TO PAY TURKEY'S PAST-DUE  
OIL DEBTS, PRINCIPAL AND INTEREST, TO IRAQ. TERMS WOULD  
BE TWO YEARS' GRACE WITH THREE-YEAR REPAYMENT PERIOD.  
TURKISH MINISTERS OF FINANCE AND ENERGY HAVE AUTHORIZED  
CITIBANK TO ASSURE GOI OF HIGH-LEVEL TURISH GOVERN-  
MENT ENDORSEMENT OF PROPOSAL. INFORMATION COMES FROM RICHARD

GEORGE, ISTANBUL REPRESENTATIVE OF CITIBANK. THE IRAQIS HAVE NOT BEEN TOLD IN ADVANCE OF THE SUBJECT TO BE DISCUSSED BY THE CITIBANK VISITORS, WHO WILL INCLUDE SENIOR VICE PRESIDENT EDWIN P HOFFMAN FROM NEW YORK AND MEHLI MISTRI, VICE PRESIDENT (LEVANT). THEY WILL PROCEED TO ANKARA APRIL 10 TO REPORT THE IRAQI REACTION TO THE TURKISH GOVERNMENT.

2. CITIBANK MADE ITS OFFER TO THE TURKISH GOVERNMENT CONDITIONED UPON A GUARANTEE FROM THE GOI. THE TURKS, GOERGE SAID, WERE NOT AT ALL PLEASED WITH THE IDEA OF ANOTHER GOVERNMENT BEING ASKED TO GUARANTEE THEIR REPAYMENT. TO SALVE THEIR PRIDE, CITIBANK DEVELOPED A EUPHEMISM; THE LOAN ARRANGEMENT WILL BE DRAWN UP AS A "TRADE BILL OF EXCHANGE" TO AVOID IDENTIFYING THE PARTIES TO IT AS LENDER, BORROWER OR GUARANTOR. THE KEY POINT OF THE BILL OF EXCHANGE FROM THE CITIBANK SIDE IS THAT IF THE TURKS DON'T PAY, THE IRAQIS WILL.

3. FROM THE IRAQI POINT OF VIEW THE ARRANGEMENT OUGHT TO BE ATTRACTIVE. IRAQ GETS ITS MONEY, LONG OVER DUE. IT MAY ALSO BE ABLE TO RESUME OIL SALES TO TURKEY. CITIBANK UNDERSTANDS THAT THE IRAQIS ARE "DESPERATE" TO FIND BUYERS FOR THE OIL THAT THEY HAVE STOPPED SHIPPING TO TURKEY BECAUSE OF NON-PAYMENT. THE BANK BELIEVES, THEREFORE, THAT THERE MAY BE A POSSIBILITY OF  
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NEGOTIATING A SUPPLY CONTRACT BETWEEN TURKEY AND IRAQ IF THE TRADE BILL OF EXCHANGE GOES FORWARD.

4. FOR TURKEY, THE ARRANGMENT COULD RESULT IN A DESIRABLE IMPROVEMENT IN RELATIONS WITH IRAQ, ITS PRINCIPAL OIL SUPPLIER, BY CHANGING WHAT HAS BEEN A DIRECT AND IRRITATING PAST-DUE OBLIGATION BY TURKEY TO IRAQ INTO AN INDIRECT OBLIGATION WITH THE ARREARAGE IMMEDIATELY LIQUIDATED. A SOLUTION OF THIS KIND WOULD PRESUMABLY ENABLE TURKEY TO OBTAIN IRAQI OIL AGAIN EITHER ON A CURRENT PAYMENTS BASIS--A FEAT WHICH THIS EMBASSY BELIEVES TURKEY WOULD NOT FIND EASY TO MAINTAIN FOR LONG-- OR PERHAPS UNDER MODEST DIRECT CREDIT ARRANGEMENTS WITH IRAQ. IN THIS CASE, TURKEY'S INVESTIGATIONS INTO WHETHER OR NOT IT CAN OBTAIN OIL FROM THE SOVIET UNION ON CREDIT TERMS (REFTEL) MAY SUDDENLY BE LESS PRESSING THAN THEY HAVE BEEN AND TURKEY CAN EXPLORE THE ISSUE WITH DECREASED VULNERABILITY TO POLITICAL PRESSURE FROM THE SOVIET UNION.  
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## Message Attributes

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**Current Classification:** UNCLASSIFIED  
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**Review Markings:**  
Sheryl P. Walter  
Declassified/Released  
US Department of State  
EO Systematic Review  
20 Mar 2014  
**Markings:** Sheryl P. Walter Declassified/Released US Department of State EO Systematic Review 20 Mar 2014